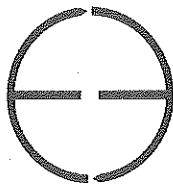


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September 28, 2007

Michael Gibbs
Assistant Secretary for Climate Change
CA Environmental Protection Agency
P.O. Box 2815
Sacramento, CA 95814

RE: CCEEB Comments on the Climate Action Team Macroeconomic Report

Dear Mike:

Thank you for the extended opportunity to comment on the recently released Climate Action Team Macroeconomic report. The California Council for Environmental and Economic Council (CCEEB) believes that macroeconomic analysis is essential in the planning and assessment of the implementation of AB 32. Macroeconomic analysis is a powerful tool for evaluating the costs of various regulatory alternatives and should play an essential role in the ultimate selection of the final regulatory approach. For this reason we have been closely following this work. While we appreciate the effort undertaken to update the emission reduction estimates of the climate strategies presented in the 2006 CAT Report we are concerned that the macroeconomic impact analysis is not as robust and complete as was expected. We trust that as your work progresses that you revisit your team's assessment of the NRM-NEEM Model and incorporate its results in your next report.

At the November 29, 2006 workshop, Charles River Associates International (CRAI) presented information regarding its multi-state computable general equilibrium (CGE) model – MRN-NEEM – and its ability to analyze the economic impacts of Climate Action Team (CAT) scenarios on the state of CA. At that time, ARB did not raise any concerns regarding the ability of the model to assess the cost/benefits of a set of policies. According to the presentation, the MRN-NEEM model had unique differentiations between it and the E-DRAM and BEAR models presented at the workshop, including its ability to look at leakage as a National model, as well as the advantage of being a dynamic, rather than static or recursive model, in the evaluation of long-term investment patterns made by market participants across time. **As a dynamic model it is designed to function optimally by utilizing microeconomic subprograms to compute costs and benefits of different scenarios rather than rely upon assumed estimates of costs and benefits as model inputs.**

While the MRN-NEEM model's analysis did not start with the cost-benefit assumptions in the CAT Report, as ARB appears to have asked, there are legitimate economic arguments that support not including such assumptions as input data into their analysis. By putting the cost/benefit assumptions into a model that is to predict the cost/benefits of a set of policy decisions, the E-DRAM and BEAR models presuppose the very economic outcomes of the proposed policies it is supposed to be evaluating. Also, such an approach assumes the prevalence of market failures in the economy of which there is not consensus in the economic community. Thus, it is inaccurate to say that the MRN-NEEM analysis was "not realistic." In fact the opposite is true: by not presupposing any economic outcome, the MRN-NEEM model can be used to validate the economic assumptions used as inputs in the E-DRAM and BEAR models. The outcome of CRAI's work is a meaningful contribution to our understanding of the societal impacts of ARB's scenarios, and in the opinion of CCEEB, should not be excluded from the final work product.

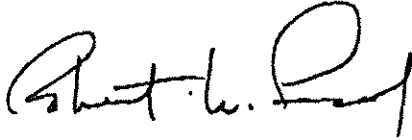
The outcome of the MRN-NEEM model is more in line with economic modeling of cap and trade programs, which consistently demonstrate that performance standards and other programs outside of a pure cap and trade program are generally speaking less economically efficient, unless addressing a specific market failure (such as building construction and leasing). It also demonstrates that assumptions made by policy makers about the existence and scope of market failures can have significant implications on policy costs. By dismissing these outputs, and not using them to assess the outcomes of the other models, ARB is missing an opportunity to get a broader picture of the impacts of a set of non-market-based policies.

The results of the MRN-NEEM model should not be summarily dismissed. At a minimum, we would suggest that ARB provide the results of the MRN-NEEM model analysis as an appendix, with the clear articulation that this model did not use the requested cost/benefit assumptions that were incorporated into the E-DRAM and BEAR models. Also, ARB should expand its review of economic data in the area of market failures that will be helpful in terms of defining the path forward on a sector-by-sector basis in the Scoping Plan, rather than assuming upfront that such market failures exist. This will also support additional analysis of the MAC report, and provide ARB with additional insights into the costs of the program for the California economy. If ARB's assumptions about the presence of significant market failures are incorrect, we will see greater macroeconomic costs and higher prices for consumers, which is counter to the goals of AB 32.

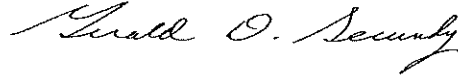
Thank you for considering these points of concern. CCEEB does not support one model over another. However, we believe that the ARB should be fully informed as it considers policy choices. Excluding the results of one of the most sophisticated economic models available today because it is designed to function optimally by computing cost and benefits rather than inputting assumptions of costs and benefits, deprives the state of the use of a powerful tool that can provide valuable insight into the economic implications of

policy choices. If you have any questions, please contact Bob Lucas at 916-444-7337 or Jerry Secundy at 415-512-7890.

Sincerely,



Robert W. Lucas
Climate Change Project Manager



Gerald D. Secundy
President

cc: Dan Dunmoyer, Deputy Chief of Staff, Office of the Governor
Linda Adams, Secretary, CA Environmental Protection Agency
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